

2015 | STRATEGIC 2019 | PLAN

› *Cash Flows to drive Shareholder Returns*

CATIA BASTIOLI

CHAIRWOMAN

MATTEO DEL FANTE

CHIEF EXECUTIVE OFFICER

PIERPAOLO CRISTOFORI

CHIEF FINANCIAL OFFICER

Agenda

○ Introduction: Terna Today

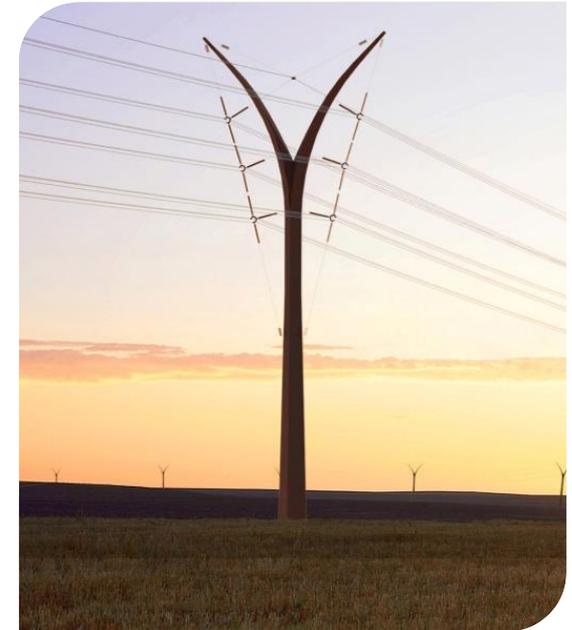
○ FY2014 Results

○ 2015-2019 Strategic Plan

Terna Today

> Terna is...

- ...the largest independent **Transmission System Operator (TSO)** in Europe
- ...the **owner** of the National High Voltage Transmission Grid
- ...responsible for the **transmission and dispatching** of the electricity all over the Country with **~3,500¹ employees**
- ...listed on the **Italian Stock Exchange** since 2004
- ... **3.8^{€bn}** cumulated dividends since IPO² and Total Shareholder Return **>300%**



> **Our Grid** { ~ 63,900_{Km} of three-phase conductors
21 interconnections³
491 substations

> **Electricity Market⁴** { 309_{TWh} energy demand
51.5_{GW} highest peak of demand (12th June 2014)

> Focus on **safety** and technological **innovation** for **sustainable** Grid development

Agenda

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Highlights

FY2014 at a Glance

KEY FIGURES



CAPEX, FREE CASH FLOW AND NET DEBT



20 €cents 2014 Dividend per share¹

Agenda

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FY14 Results

Revenues

KEY FIGURES

Total Revenues

1,996 €mn
+5.3%_{yoy}

Quality of Service

34 €mn
+22 €mn

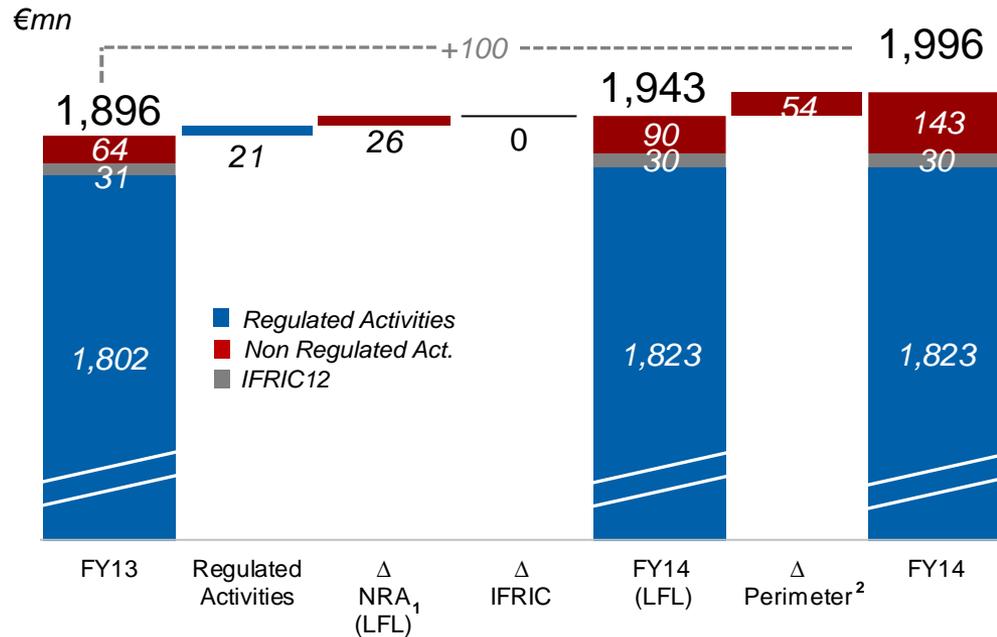
Non Regulated

90 €mn
+26 €mn

Tamini

54 €mn

TOTAL REVENUES EVOLUTION



FY14 Results

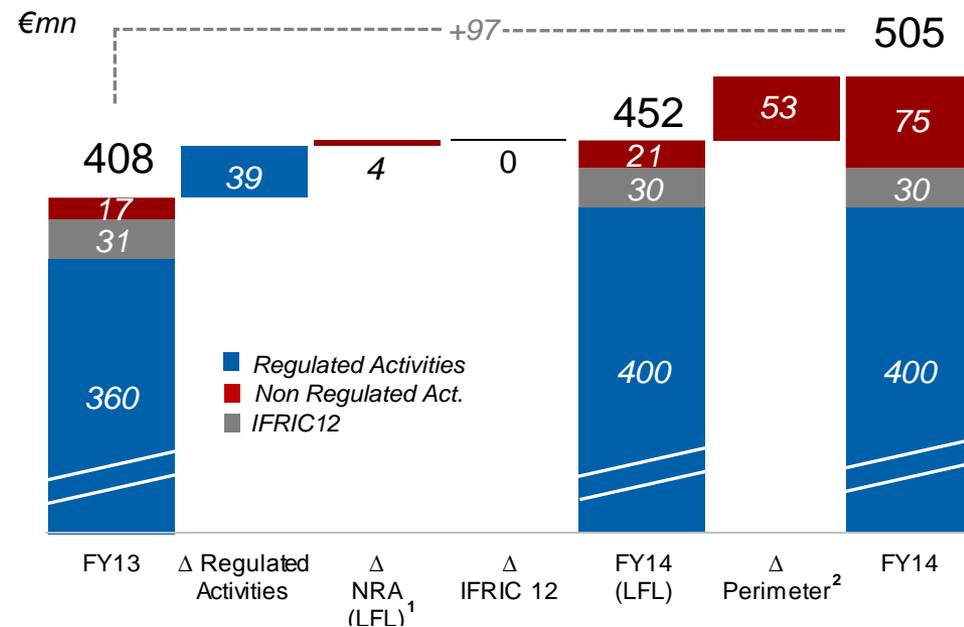
Costs

KEY FIGURES

Total Costs
505 €mn
+23.7%_{yoy}

Provision for Voluntary
Turnover Programme
37 €mn

TOTAL COSTS EVOLUTION



€ mn	FY13	FY14 LFL	Δmn	Δ%	Tamini
Labour Costs	199	247	48	24%	12
External Services & Materials	132	137	5	4%	39
Other	46	38	-9	-19%	1
IFRIC12	31	30	0	-1%	
Total Costs	408	452	44	11%	53

FY14 Results

From EBITDA to Net Income

KEY FIGURES

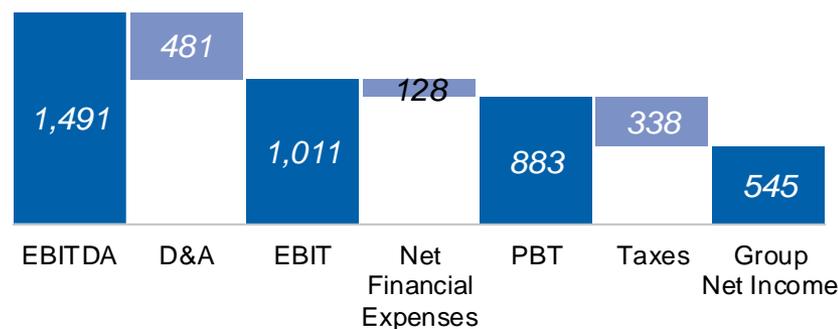
Group EBITDA
1,491 €mn
+0.2%_{yoy}

Group EBITDA %
74.7%

Cost of Net Debt
2.5%

Group Net Income
545 €mn
+6.0%_{yoy}

€mn



€mn	FY13	FY14	Δ	Δ %
EBITDA	1,488	1,491	3	0.2%
<i>Ebitda %</i>	78.5%	74.7%	-3.8pp	
D&A	450	481	30	6.7%
EBIT	1,038	1,011	-27	-2.6%
Net Financial Expenses	100	128	28	27.6%
PBT	938	883	-55	-5.8%
Tax Rate	45.2%	38.3%	-6.9pp	
Taxes	424	338	-85	-20.1%
Group Net Income	514	545	31	6.0%

FY14 Results

Capex Breakdown

KEY FIGURES

FY14 Total Capex

1,096 €mn

Development Capex

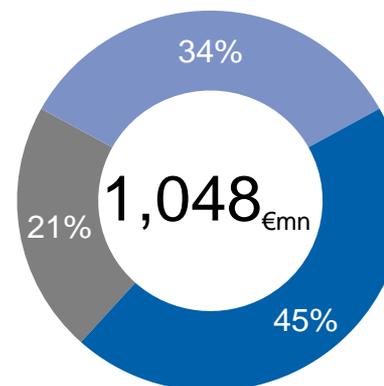
732 €mn

Storage

92 €mn
+48%_{yoy}

REGULATED CAPEX BREAKDOWN¹

■ Base Return
■ +1.5%
■ +2%



79%
Development¹

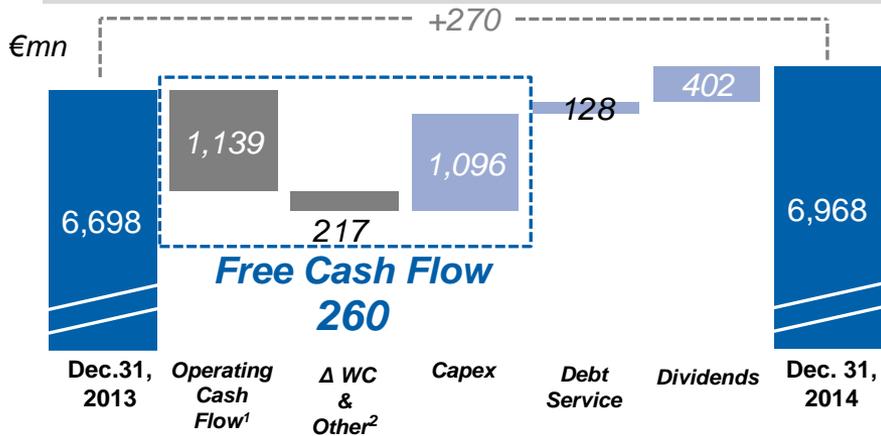
Category (€mn)	FY13	FY14	Δ _{yoy}	Δ % _{yoy}
+2%	459	469	10	2%
+1.5%	479	355	-123	-26%
Development Capex	937	824	-113	-12%
Maintenance (Base Return)	229	224	-5	-2%
Regulated Capex	1,166	1,048	-118	-10%
Other ²	46	48	2	
Total Group Capex	1,212	1,096	-116	-10%

FY14 Results

Net Debt Evolution & Financial Structure

FCF AND NET DEBT EVOLUTION

2014

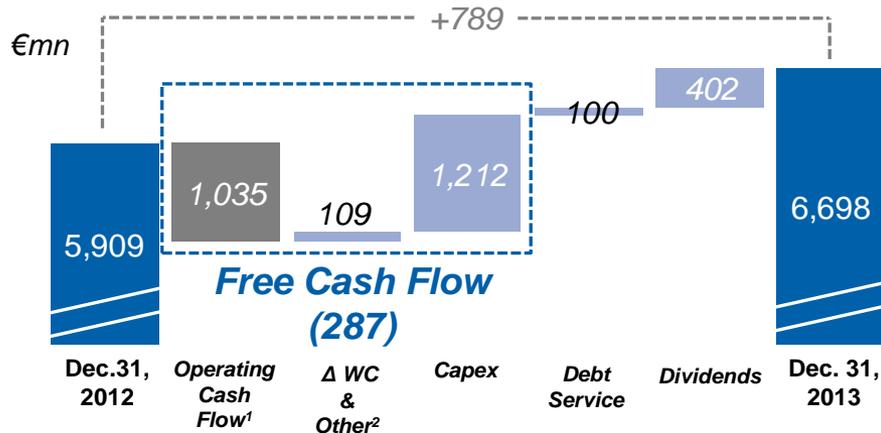


KEY FIGURES

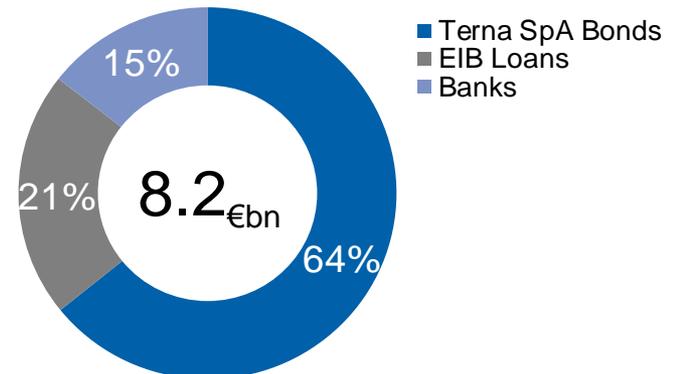
Net Debt
6,968 €mn

Fixed/floating ratio³
63/37

2013



GROSS DEBT BREAKDOWN



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Unchanged Values and Focus

LEGACY ISSUES SOLVED

Infrastructural gap filled

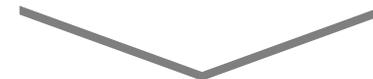
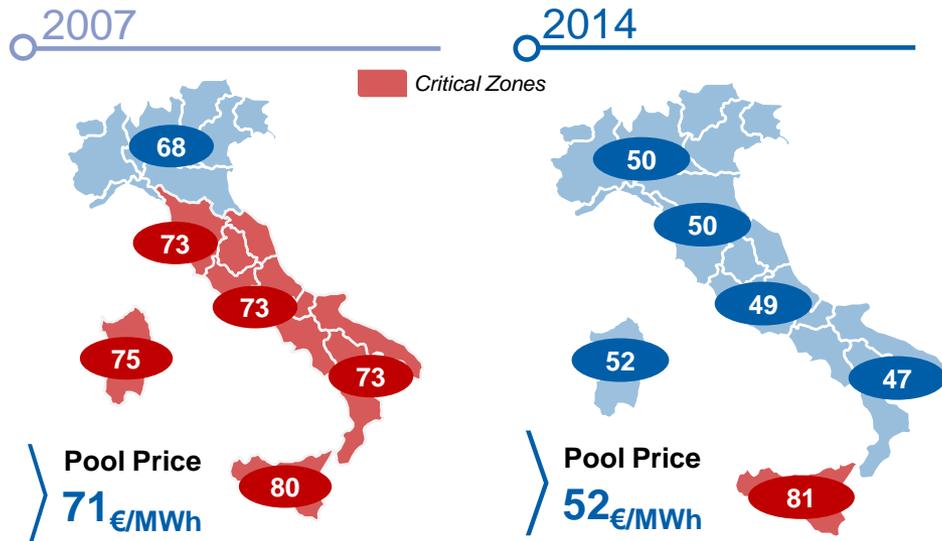
Very relevant energy cost savings

Excellent results for shareholders



NEW CHALLENGES

.....



WITH UNCHANGED VALUES & FOCUS

Very Conservative approach to risk

&

Attractive shareholder returns

8€bn Capex in 8 years

Strategic Focus on Free Cash Flow

CHALLENGES

Macroeconomic scenario
Electricity market
Regulation

MANAGEMENT ACTIONS

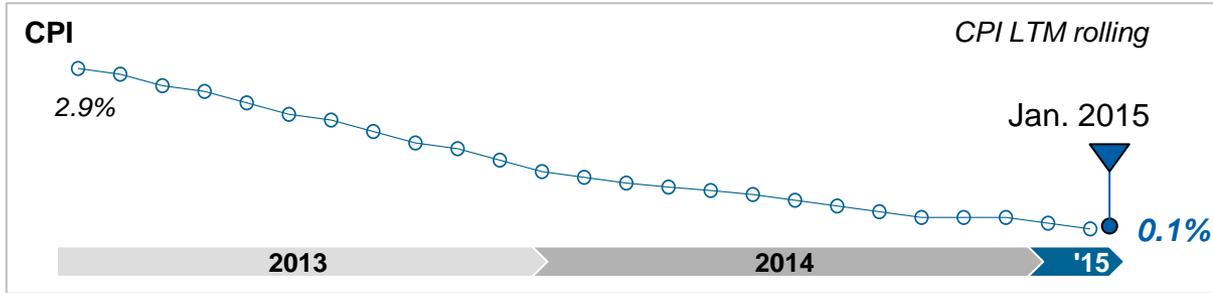
Capex and Opex Discipline
Selective Grid Expansion
Non Regulated Activities

Free Cash Flow

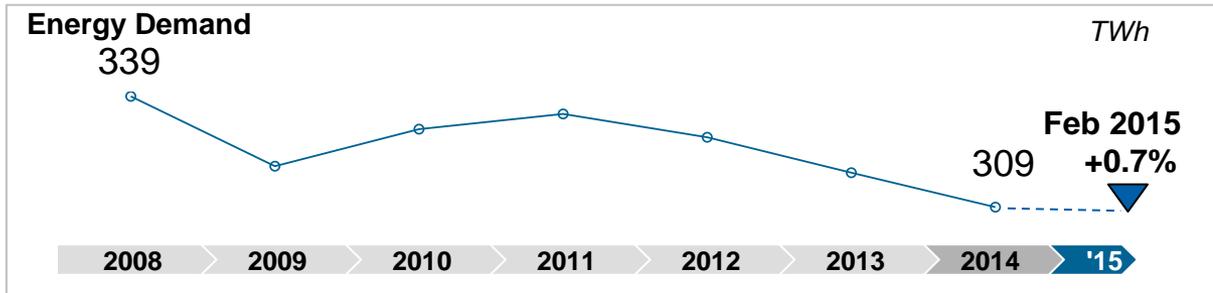
to drive

Sustainable and Attractive Shareholder Returns

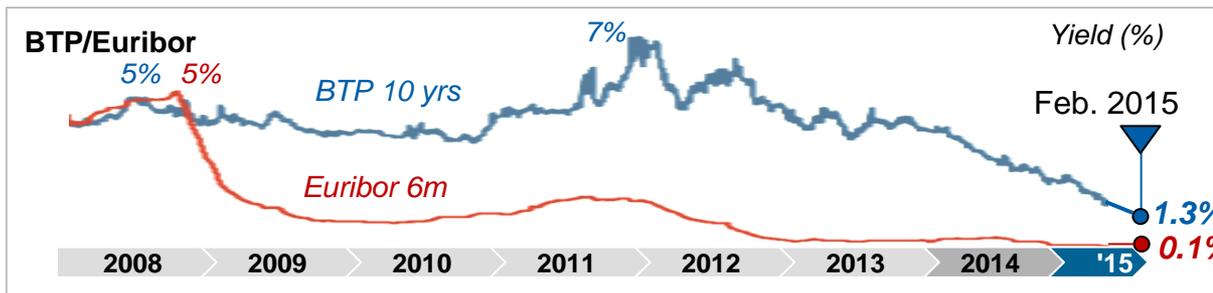
Unprecedented Macro Scenario



> Slowing inflation



> Weak but stabilizing demand



> Decreasing yields

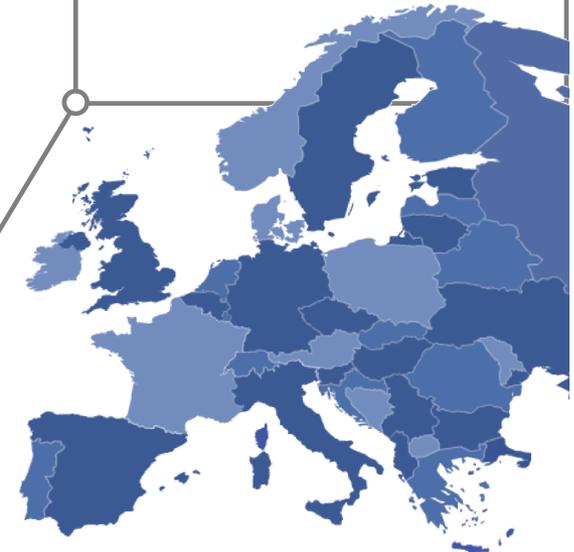
Exceptional liquidity reducing yields in low growth environment

European Electricity Market

THE “ENERGY UNION” IS MOVING FORWARD

- > Energy security, solidarity and trust
- > A fully integrated energy grid
- > Energy efficiency
- > Renewables integration
- > Research, Innovation, Environment

TSOs
fundamental to
promote change



LOOKING BEYOND ITALY

A Changing Regulatory Framework

AEEGSI 2015-2018 STRATEGIC GUIDELINES

Secure, efficient and flexible electricity market

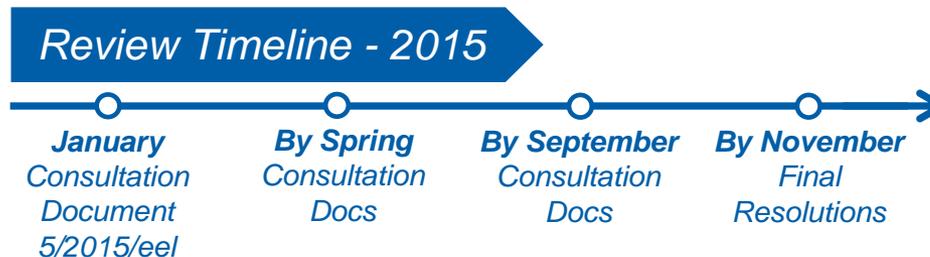
Integration with other EU markets

NEW REGULATORY PERIOD

Review kicked off

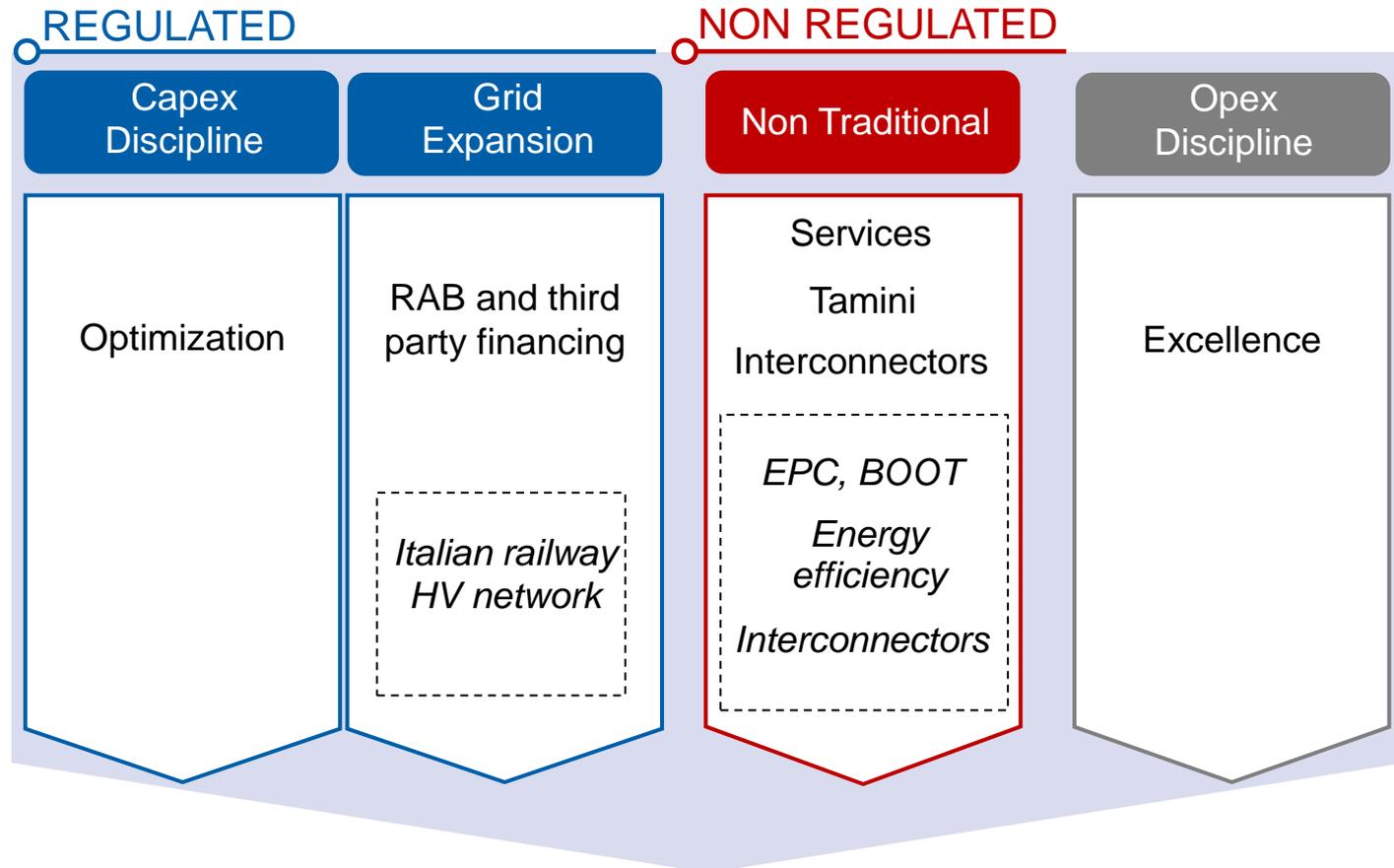
More selective approach on Capex

Increase public financing attractiveness



Framework

4 PILLARS



Potential
Upside not
included in
the Plan



Enhancing **Cash Flows**

2015-2019 Targets

REGULATED

NON REGULATED

Capex Discipline¹

Capex **3.2**€bn
Old Plan 3.6€bn

Grid Expansion

Tariff RAB CAGR **3%**
up to **13.4**€bn
Old Plan CAGR 5% area

Non Traditional²

Services
~400€mn
Tamini
~600€mn
Interconnectors
~400€mn

Opex Discipline

~30€mn
annual savings
by 2019

Free Cash Flow >2.0€bn cumulated

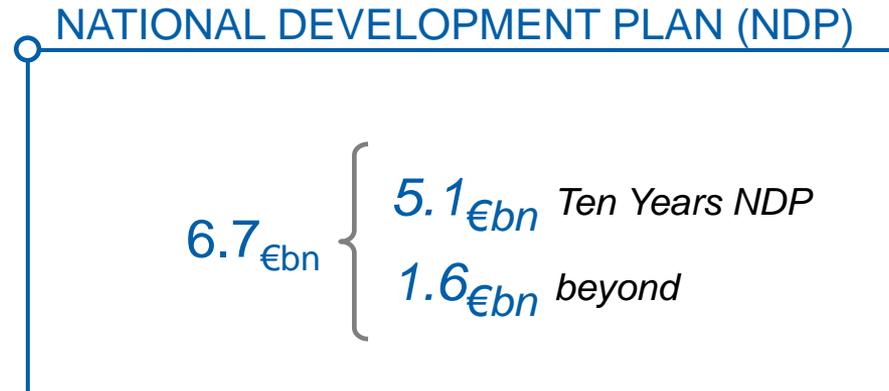
20€cents **DIVIDEND** for 2015, a solid basis for future dividends

Net Debt reduction starting from 2017/2018

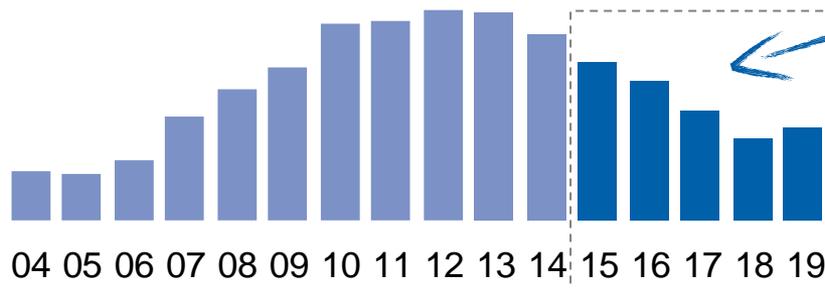
Capex Discipline

Reduction vs Old Plan driven by

- > Roll-over effect
- > More selective approach



2015-2019 CAPEX

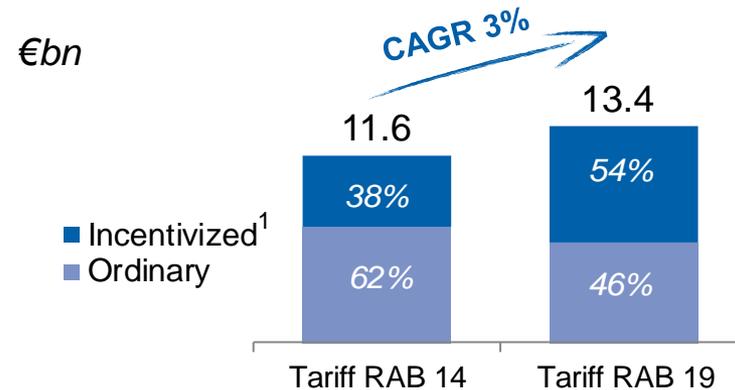


3.2€bn 2015-2019 Capex ¹

Grid Expansion

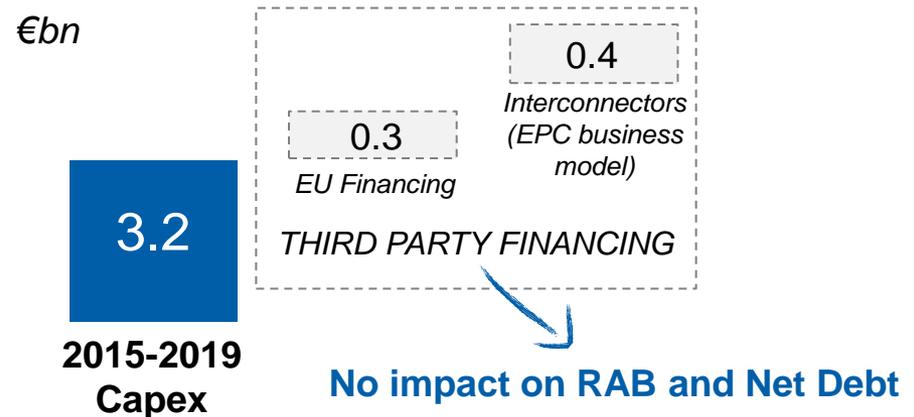
TARIFF RAB EVOLUTION

Continue to develop the Grid



3.9BN TOTAL EFFORT FOR THE GRID

Terna and third party financing



Main Projects included in the Plan

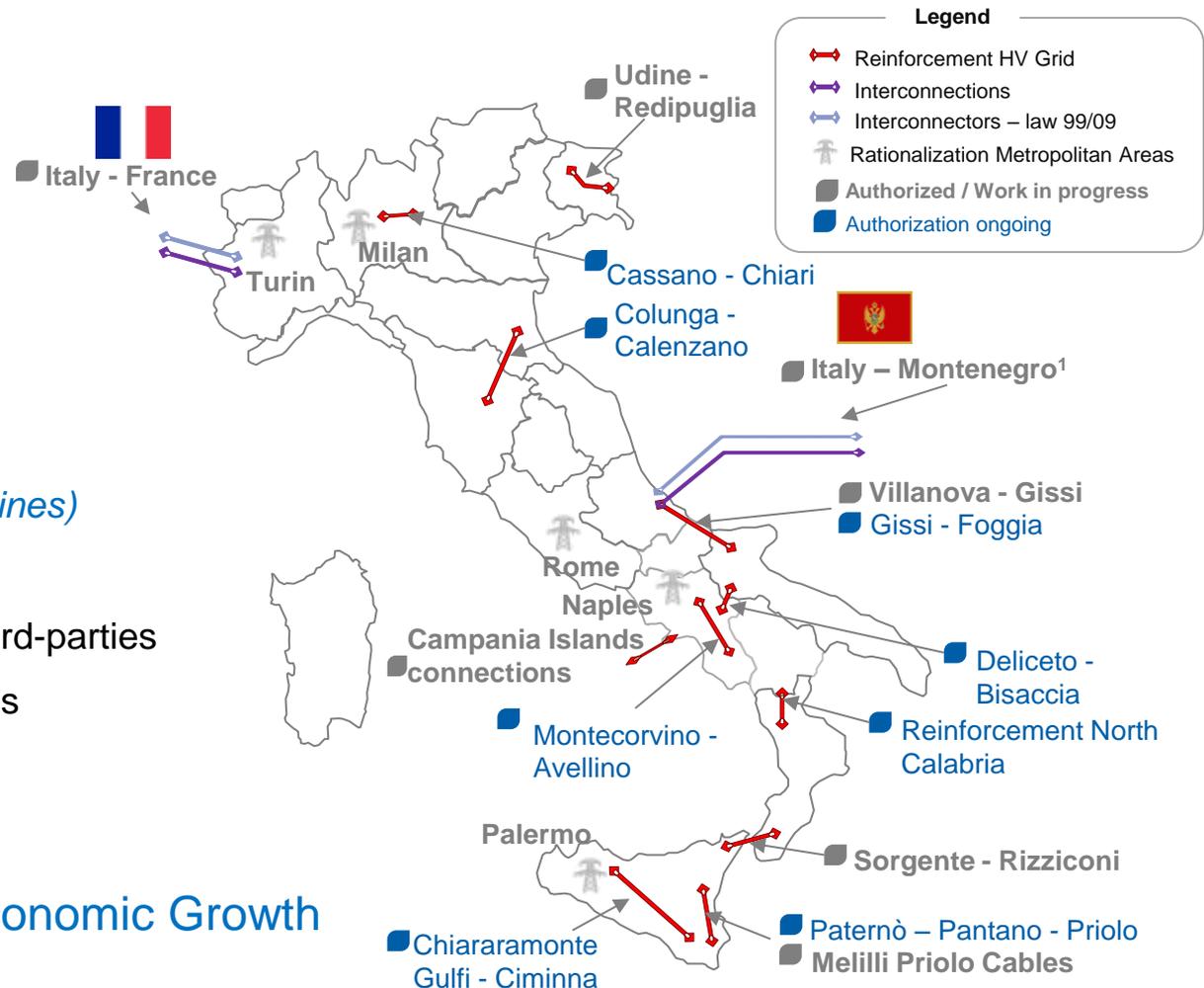
Regulated

- > Interconnections
- > Development
- > Reinforcements

Non Regulated (*merchant lines*)

- > Interconnectors ongoing
 - EPC for energy-intensive third-parties
 - ~ 400mn cumulated revenues
 - ~ 10% EBITDA Margin

Strategic for Country's Economic Growth



Note: Italy-France and Sorgente - Rizziconi are projects  Co-financed by the European Union
European Energy Programme for Recovery

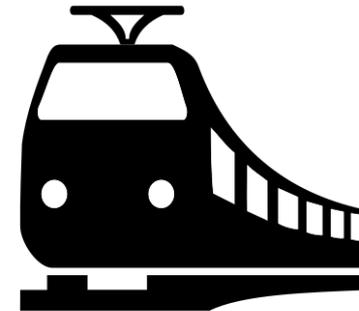
Potential Acquisition of Italian Railway HV Network

Not Included in the Plan

STRATEGIC RATIONALE

Rationalization of the Grid

- > European best practice
- > No headcount transfer



ASSETS EARMARKED

- ~ 9,300km Lines of high voltage grid
- ~ 420# primary stations

TRANSACTION PROCESS

Signed Non-Binding **MoU** on Dec.30, 2014

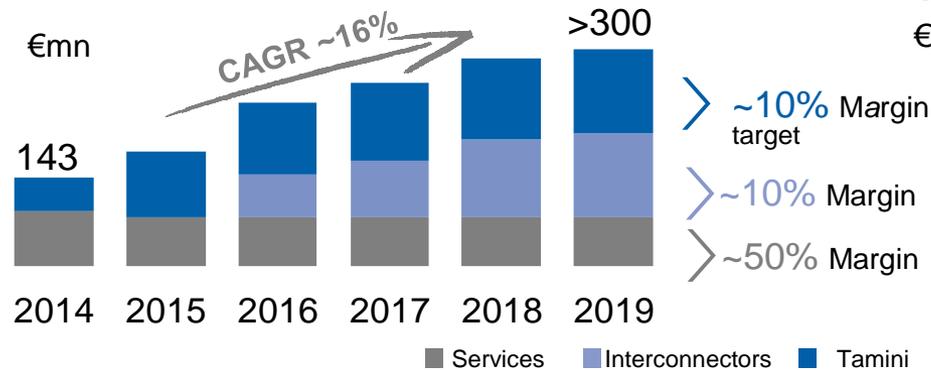
- > All assets to be included in the **NTG**
- > Authority to publish regulatory parameters
- > Negotiations subject to due diligence

Non Regulated - Capital Light to Sustain Growth

DIVERSIFIED PORTFOLIO ALREADY CONTRACTED

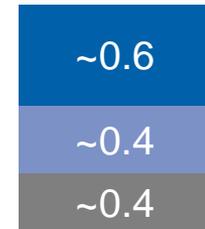
- > Services
- > Tamini
- > Interconnectors

Revenues breakdown and EBITDA Margins



2015-2019
Cumulated revenues

€bn ~1.4



- > ~10% Margin target
- > ~10% Margin
- > ~50% Margin

UPSIDE POTENTIAL

- > Identified opportunities
In Italy and abroad



Rigorous **discipline** for capital allocation across different projects

Update on Services

LEVERAGE ON CORE TECHNOLOGY AND SKILLS



TLC

Housing of optical fiber



EPC

Design and development of
electricity infrastructures



O&M

O&M of HV and PV assets

Consistency with Group **risk profile**

Limited **capital** absorption

Cumulated revenues¹ ~ 400€mn

EBITDA margin ~ 50%

Update on Tamini

WELL POSITIONED FOR TURNAROUND IN GROWING GLOBAL MARKETS



- > Appointment of new **experienced CEO**
- > Power **transformers** for generation plants and networks
- > **Specialized** products for major Industrial energy users
- > > **8,300** transformers sold in over **90** countries
- > > **60%** of revenues abroad

2015-2019 BUSINESS TARGETS

~ **600** €mn
Cum. Revenues

Growth driven by emerging markets and investments in new technology

~ **10%**
EBITDA Margin
Target

Margin enhancement through **industrial** and **operating** synergies

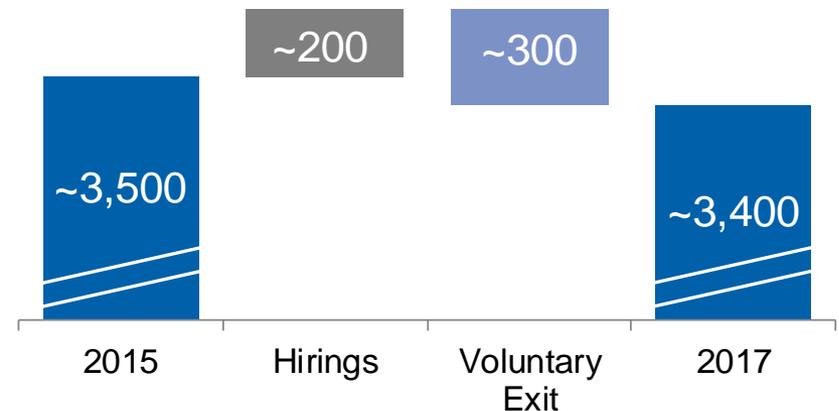
Unlocking Potential from Terna's People

NEW ORGANIZATION

- > **Clear role** for companies in the Group
Centralized services
- > **Restructuring** of staff and middle mgmt
- > Operational activities **optimization**
Insourcing

VOLUNTARY TURNOVER PROGRAMME

Headcount



37 €mn accrued reserve already booked in 2014 to address voluntary exits

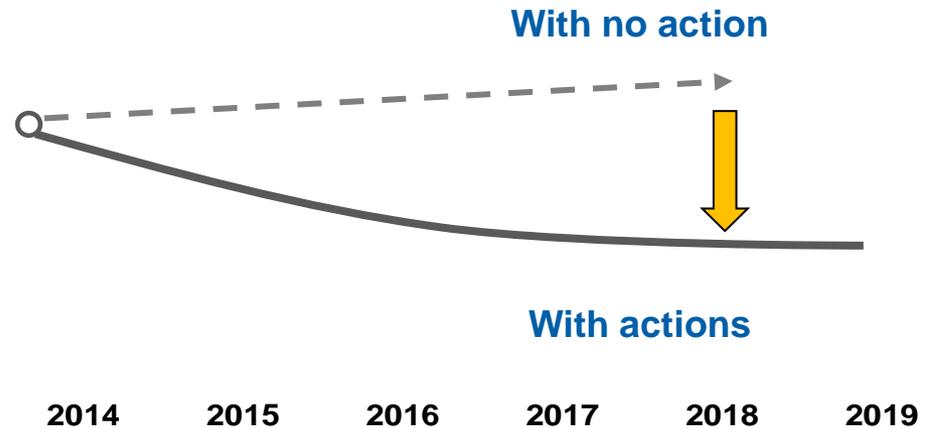
6 €mn savings already achieved in 2014 from Governance and Top Management

~ 20 €mn additional annual savings by 2019

External Costs Savings

DISCIPLINE ON EXTERNAL COSTS

- > Facilities services **revised**
- > Fleet management **optimized**
- > Information Technology **simplified**
- > Contracts **renegotiated**



Up to **10**€mn annual savings by 2019

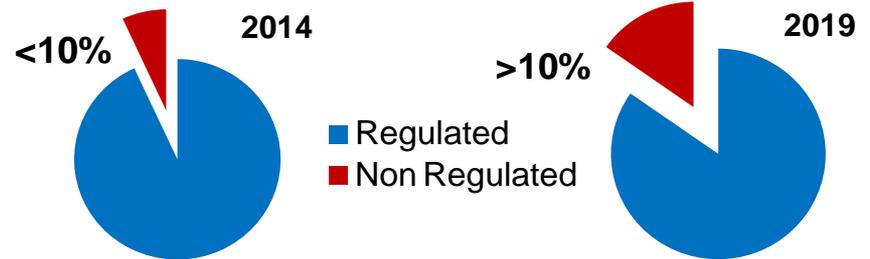
Summary Targets

Group Revenues and Opex

REVENUES

Change in mix

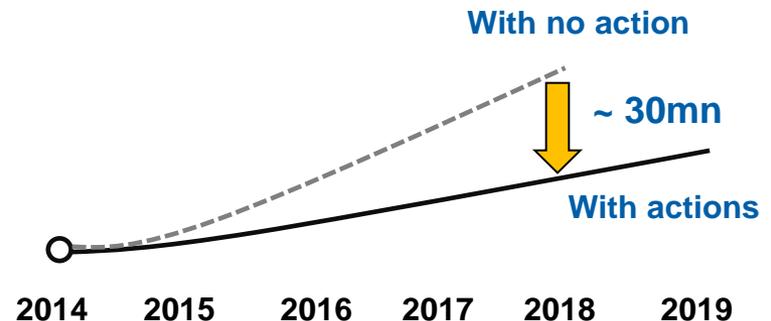
> Non Regulated >2X 2019 vs 2014



OPEX

Opex¹ in control

> Broadly stable in real terms



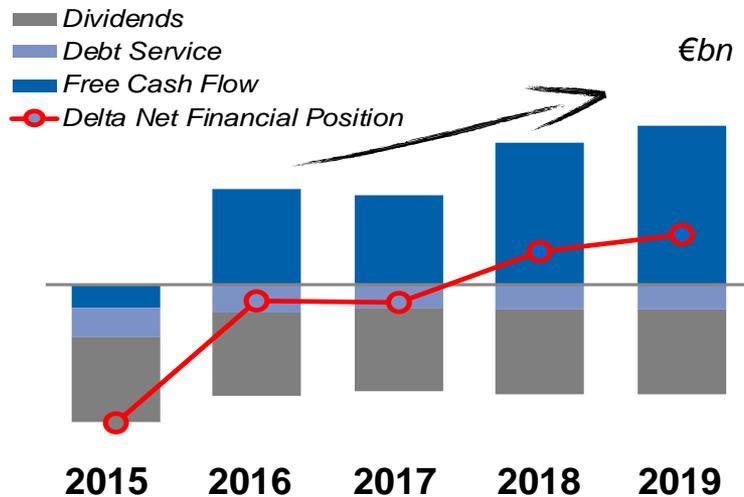
EBITDA supported by Non Regulated Activities and cost savings

Summary Targets

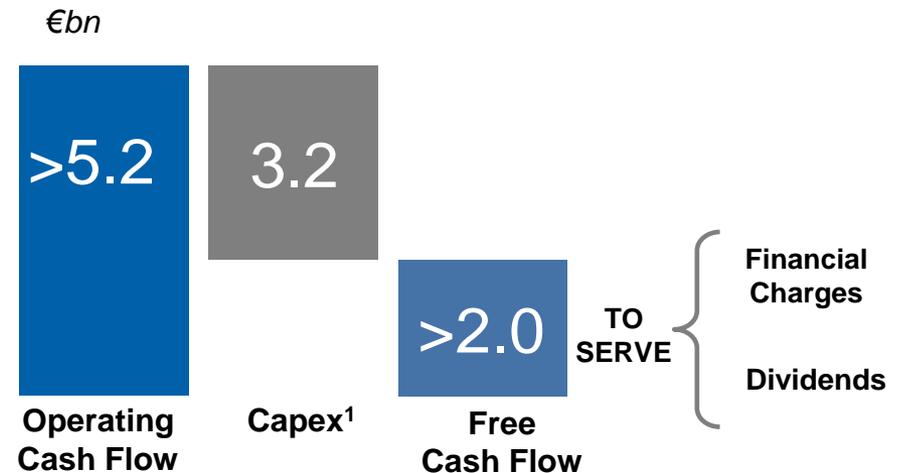
Free Cash Flow

- > Improving FCF generation
- > Net Debt reduction from 2017/2018

EVOLUTION



CUMULATED 2015-2019



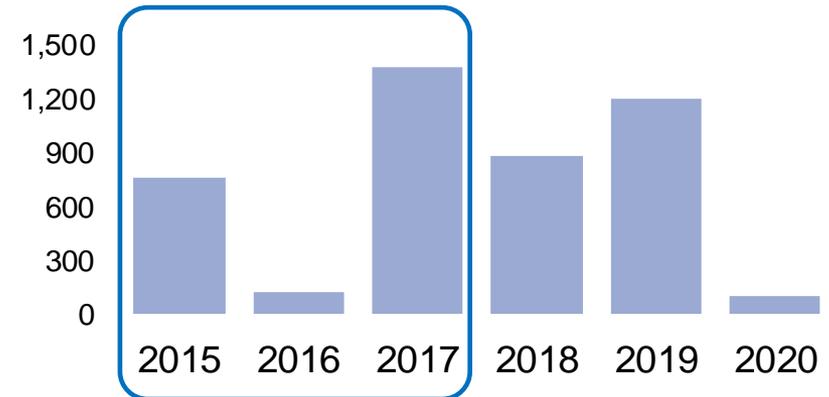
Healthy **Cash Flow** to sustain **dividends**

Summary Targets

Financial KPIs

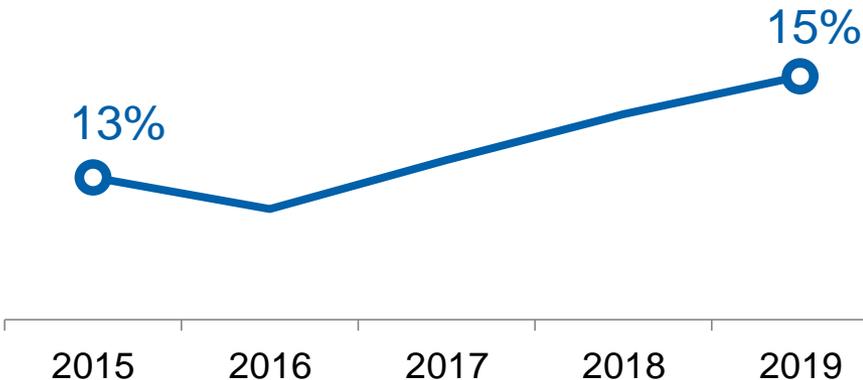
- > Maintain a solid financial structure
- > Average kd in the period at 2% area

DEBT MATURITIES (€mn)

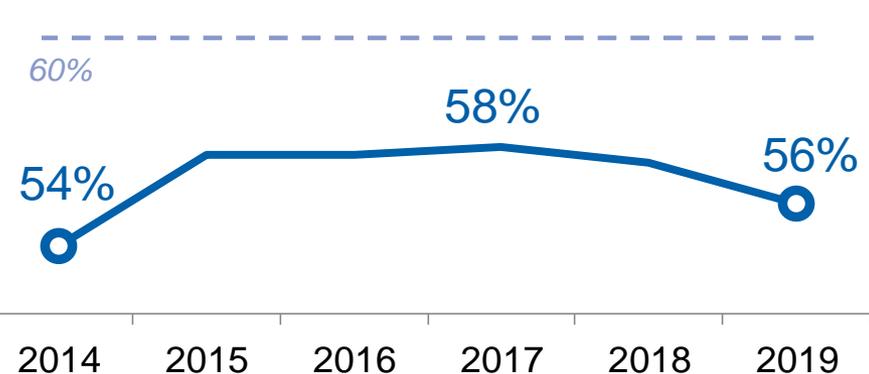


Already covered

FFO/NET DEBT



NET DEBT/CALENDAR RAB



Guidance 2015

REVENUES

~ 2.05 €bn

EBITDA

~ 1.52 €bn

CAPEX

~ 1.0 €bn

Tariff RAB

~ 12.3 €bn

DIVIDEND per SHARE

20 €cents

Closing Remarks

- Terna has significantly **modernized** the Italian electricity Grid and has become a **leading** European TSO
- New business plan, based on clear management actions, will drive **Free Cash Flows**
- Further **upside** from growth of Non Regulated Business and potential new opportunities



Attractive and
sustainable
shareholder returns

> THANK YOU. QUESTIONS?

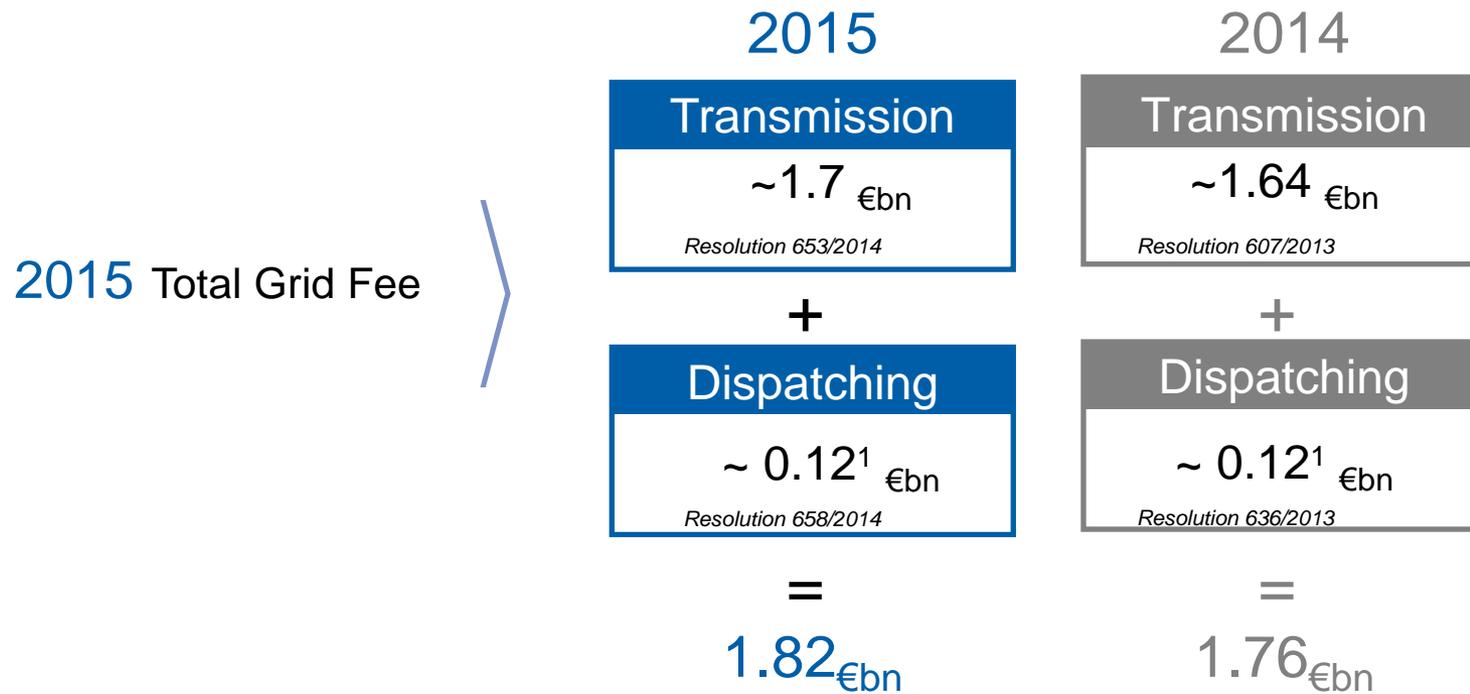
Matteo Del Fante *Chief Executive Officer*

Pierpaolo Cristofori *Chief Financial Officer*

Annexes

Annex

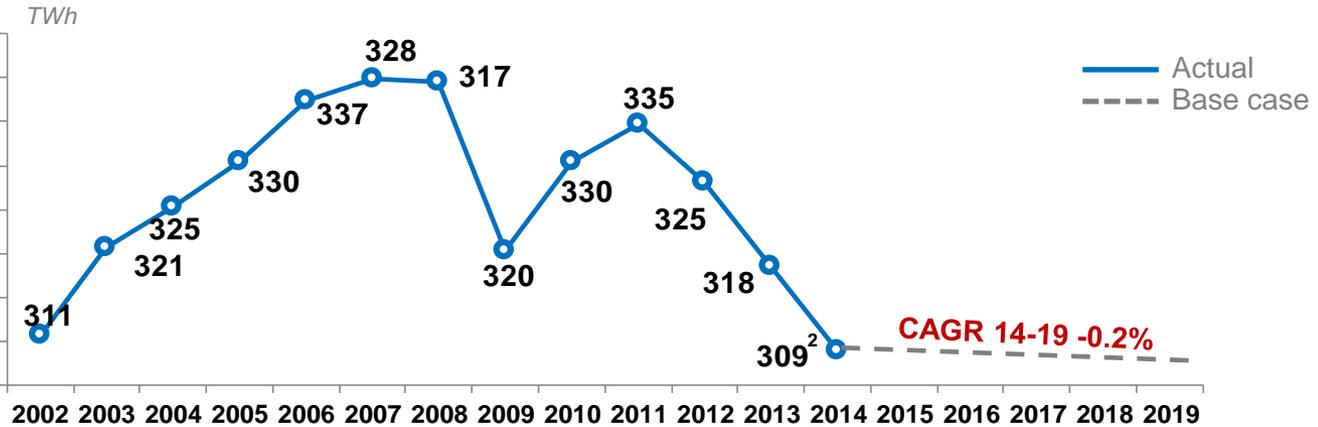
2015 Tariff



Annex

Assumptions

Energy Demand¹



Macro Scenario

CPI/Deflator³

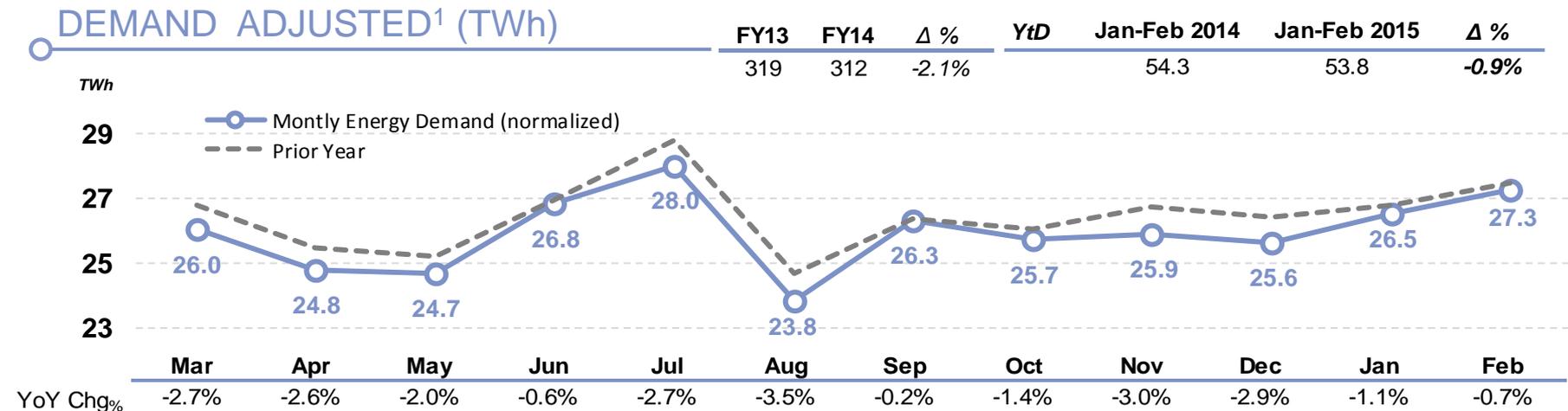
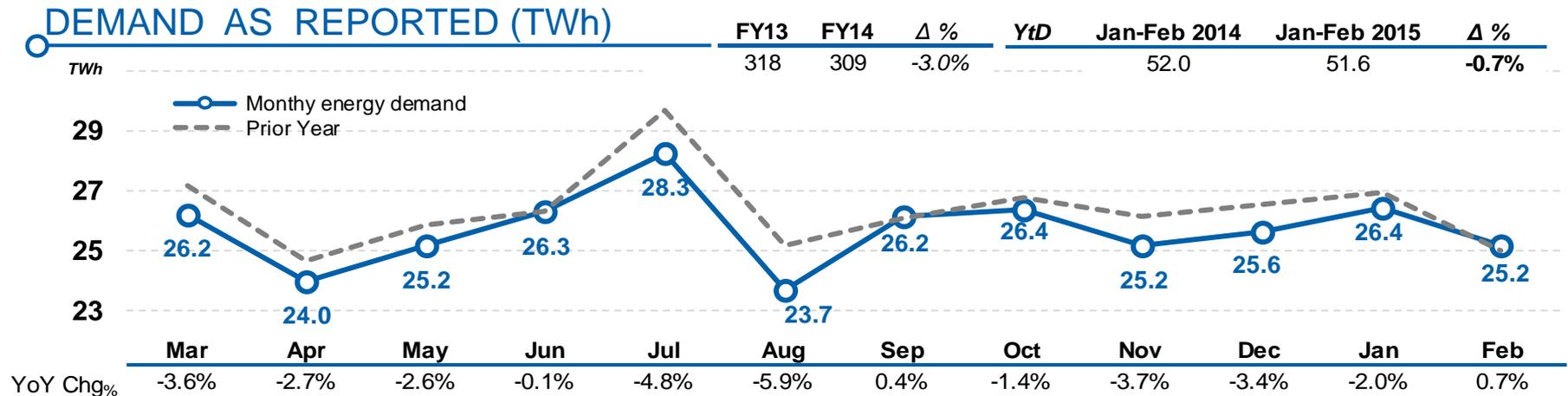
- > 2015: tariff deflator at 0.1%; inflation at 0.7%
- > 2016-2019: average deflator at 0.7%, inflation at 0.8%, back-end loaded

Fiscal Scenario

No Robin Hood Tax from 2015

Annex

Electricity Market Trends – Last 12 Months



Annex Storage

Power Intensive

Scope: Safe management of the grid

Total Capacity: **40 MW**

Number of Sites: (Phase I) : 2

Phase I: 16 MW Storage Lab

Codrongianos

Installed Power: \approx 8 MW
Status: 5.4 MW completed

Ciminna

Installed Power: \approx 8 MW
Status: 3.2 MW completed

Technology evaluation

Phase II: 24 MW

Casuzze and Codrongianos: to be started

Energy Intensive

Scope: Solve Grid congestion / bottlenecks

Total Capacity: **35 MW**

Number of Sites: 3

Ginestra

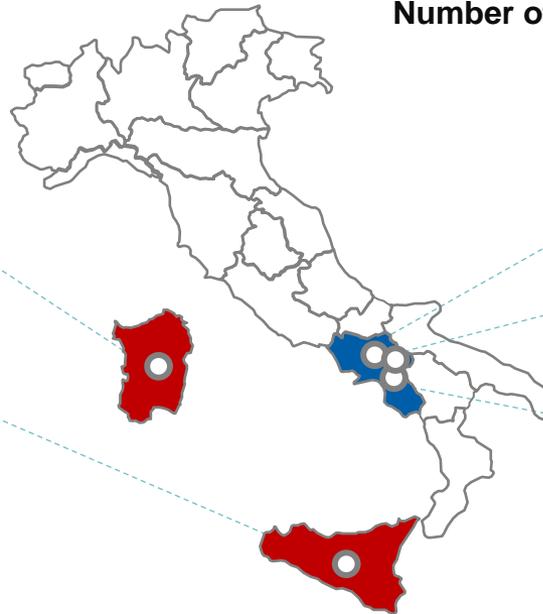
Installed Power: \approx 12 MW
Status: completed

Flumeri

Installed Power: \approx 12 MW
Status: 6.0 MW completed

Scampitella

Installed Power: \approx 12 MW
Status: building in progress



Ginestra and Flumeri among the **biggest** installations in Europe
Excellence in technological Know-how

Annex

FY14 - Consolidated Income Statement¹

€ mn	FY13	FY14	Δmn	Δ%
<i>Transmission</i>	1,644	1,651	6	0.4%
<i>Dispatching</i>	114	117	3	2.5%
<i>Other²</i>	43	55	12	27.9%
Regulated Activities	1,802	1,823	21	1.2%
Non Regulated Act.	64	143	79	124%
IFRIC12	31	30	0	-1.3%
Total Revenues	1,896	1,996	100	5.3%
<i>Labour Costs</i>	191	236	45	23.8%
<i>Services</i>	128	129	1	0.7%
<i>Other</i>	41	35	-7	-16.3%
Regulated Activities	360	400	39	11.0%
Non Regulated Act.	17	75	58	338%
IFRIC12	31	30	0	-1.3%
Total Costs	408	505	97	23.7%
EBITDA	1,488	1,491	3	0.2%
<i>D&A</i>	450	481	30	6.7%
EBIT	1,038	1,011	-27	-2.6%
<i>Net Financial Charges</i>	100	128	28	27.6%
Pre Tax Profit	938	883	-55	-5.8%
<i>Taxes</i>	424	338	-85	-20.1%
<i>Tax Rate (%)</i>	45.2%	38.3%		
Group Net Income	514	545	31	6.0%

Annex

FY14 - Group Costs Breakdown

€ mn	FY13	FY14	Δmn	Δ%
<i>Labour Costs</i>	199	259	60	30.2%
<i>Services</i>	121	140	19	15.5%
<i>Materials</i>	11	37	26	225%
<i>Other</i>	46	39	-7	-15.9%
IFRIC12	31	30	0	-1.3%
Total Costs	408	505	97	23.7%

Annex

FY14 – P&L Quarterly Analysis

€ mn	1Q13	1Q14	Δ	2Q13	2Q14	Δ	3Q13	3Q14	Δ	4Q13	4Q14	Δ
<i>Regulated Activities</i>	456	457	1	431	430	-1	454	456	2	461	481	19
<i>Non Regulated Act.</i>	9	17	8	11	34	23	24	37	13	20	55	36
<i>IFRIC 12</i>	5	4	0	7	8	1	5	6	0	14	13	-1
Operating Revenues	470	478	8	449	472	23	482	498	15	495	549	54
<i>Regulated Activities</i>	81	81	0	87	81	-5	71	80	9	122	157	35
<i>Non Regulated Act.</i>	4	3	-1	4	20	16	5	29	24	4	22	18
<i>IFRIC 12</i>	5	4	0	7	8	1	5	6	0	14	13	-1
Operating Expenses	89	88	-1	98	110	12	82	115	34	140	192	52
EBITDA	381	390	9	352	363	11	401	382	-18	355	357	2
<i>D&A</i>	106	113	7	108	122	14	109	108	0	128	137	9
EBIT	275	277	3	244	241	-3	292	274	-18	227	219	-8
<i>Net Financial Charges</i>	18	31	14	25	33	8	28	36	7	29	28	-1
Pre Tax Profit	257	246	-11	219	208	-11	264	239	-25	198	191	-6
<i>Taxes</i>	116	101	-15	96	78	-18	116	95	-21	96	65	-31
Group Net Income	142	145	4	122	129	7	148	144	-4	102	127	25

Annex

FY14 - Consolidated Balance Sheet

€ mn	Dec. 31,2013	Dec. 31,2014	Δmn
<i>PP&E</i>	10,120	10,779	659
<i>Intangible Asset</i>	462	453	-9
<i>Financial Inv. and Other</i>	83	91	8
Total Fixed Assets	10,665	11,322	658
Net WC	-573	-821	-247
Funds	-453	-441	12
Total Net Invested Capital	9,638	10,061	422
<i>Financed by</i>			
Consolidated Net Debt	6,698	6,968	270
Total Shareholder's Equity	2,941	3,093	152
Total	9,638	10,061	422
D/E Ratio	2.3	2.3	
D/D+E Ratio	0.69	0.69	
Number of Shares ('000)	2,010	2,010	

NOTE: 2014 figures include Tamini

Annex

FY14 - Consolidated Cash Flow

€ mn	FY13	FY14	Δmn
<i>Net Income</i>	514	545	31
<i>D&A¹</i>	450	481	30
<i>Net Financial Charges</i>	100	128	28
<i>Net Change in Funds</i>	-29	-14	16
Operating Cash Flow	1,035	1,139	104
<i>Δ Working Capital & Other²</i>	-109	217	326
Cash Flow from Operating Activities	926	1,356	430
<i>Capital Expenditures</i>	-1,212	-1,096	116
Free Cash Flow	-287	260	547
<i>Dividends</i>	-402	-402	0
<i>Debt Service</i>	-100	-128	-28
Change in Net Cash (Debt)	-789	-270	

NOTE: 2014 figures include Tamini

1. Net of assets' disposal

2. Including Other Fixed Assets Changes, Change in Capital & Other

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